

806 KAR 6:010. Valuation standards; audits.

RELATES TO: KRS 304.2-290, 304.6-130-304.6-180

STATUTORY AUTHORITY: KRS 304.2-110

NECESSITY, FUNCTION, AND CONFORMITY: EO 2004-731, signed July 9, 2004, created the Office of Insurance. KRS 304.2-110(1) authorizes the executive director of insurance to promulgate administrative regulations necessary for or as an aid to the effectuation of any provision of the Kentucky Insurance Code as defined in KRS 304.1-010. KRS 304.6-130 to 304.6-180 requires the executive director to annually value the liability item of the NAIC Annual Statement form as itemized in Exhibit 5 of that statement. This administrative regulation provides the framework for valuation standards that are acceptable, and provides mortality tables for the determination of adequate reserves.

Section 1. Definitions. (1) "1958 Commissioners Extended Term Table of Mortality" means the mortality table which:

(a) Is based on underwriting requirements that do not include evidence of medical insurability; and

(b) Incorporates mortality rates adequate to take into account the increase in mortality rate to which the class of persons whose lives are insured with credit life insurance are subject.

(2) "1958 Commissioners Standard Ordinary Table of Mortality" means the mortality table which:

(a) Is based on underwriting requirements that include evidence of medical insurability; and

(b) Is a recognized table of mortality that will produce substantially the same result as the "1958 Commissioners Extended Term Table of Mortality" if thirty (30) percent is added, the additional thirty (30) percent being the amount necessary to result in mortality rates adequate to take into account the increase in mortality to which the class or persons whose lives are insured by credit life insurance are subject.

(3) "2001 Commissioners Standard Ordinary Male Composite Ultimate Mortality Table" means a mortality table which:

(a) Consists of rates for male lives in the ultimate form with smokers and nonsmokers combined;

(b) Was developed by the American Academy of Actuaries CSO Task Force from the Valuation Basic Mortality Table developed by the Society of Actuaries Individual Life Insurance Valuation Mortality Task Force and adopted by the NAIC in December 2002; and

(c) Includes both the age-nearest-birthday and age-last-birthday bases of the mortality tables.

(4) "Credit Life Insurance" is defined in KRS 304.19-020(1).

(5) "Single Premium Credit Life Insurance" means credit life insurance for which a charge often is passed on to the debtor for the term of the coverage of the term of the debt and that is often included in the total sum of the obligation.

Section 2. Valuation. In conjunction with the valuation required by KRS 304.6-130, each domestic life insurer shall, in the form of an affidavit by its actuary or consulting actuary, furnish the life actuary, in the manner, form, and order as he may prescribe, totals and summaries in connection with valuation as the life actuary may deem necessary. In addition, each domestic life insurer shall supply and furnish to the life actuary, in corresponding order, with the necessary documentation, lists, tabulations and working papers for policy contract obligations to be valued which shall be in readily accessible and auditable form at the home office of the insurer.

Section 3. Certificate of Valuation. The executive director may accept for purposes of issuing a

certificate of valuation, the "Request for Certification of Reserves" by a domestic life insurance company which is certified by an actuary deemed satisfactory for the purpose by the executive director. However, the executive director shall annually cause the records of domestic life insurance companies to be audited, using appropriate methods to assure himself that life insurance companies are properly valuing their reserve liabilities as provided by statute.

Section 4. Components of life insurance policies, annuities, and pure endowment contracts shall include contracts, any riders or additional benefits related to the contract.

Section 5. Credit Life Insurance. (1) Pursuant to the authority contained in KRS 304.6-140(2)(a) the reserves for all policies of single premium group credit life insurance and all single premium individual credit life insurance issued to be effective prior to January 1, 2006 shall be computed on the basis of:

- (a) 100 percent of the 1958 Commissioners Extended Term Table of Mortality;
- (b) 130 percent of the 1958 Commissioners Standard Ordinary Table of Mortality; or
- (c) In accordance with subsection (2) of this section.

(2) Pursuant to the authority contained in KRS 304.6-140(2)(a) the minimum standard for reserves for all policies of group credit life insurance and individual credit life insurance issued to be effective prior to January 1, 2006, may be determined according to the following:

(a) The interest rates used in determining the minimum standard for valuation shall be the calendar year statutory valuation interest rates as defined in KRS 304.6-145;

(b) The method used in determining the minimum standard for valuation shall be the commissioners reserve valuation method as defined in KRS 304.6-150;

(c) The minimum mortality standard for both male and female insureds shall be the 2001 Commissioners Standard Ordinary Male Composite Ultimate Mortality Table; and

(d) Where the credit life insurance policy or certificate insures two (2) lives, the minimum mortality standard shall be twice the mortality in the 2001 Commissioners Standard Ordinary Male Composite Ultimate Mortality Table based on the age of the older insured.

(3) Pursuant to the authority contained in KRS 304.6-140(2)(a) the minimum standard for reserves for all policies of group credit life insurance and individual credit life insurance issued to be effective on or after January 1, 2006, shall be determined according to the following:

(a) The interest rates used in determining the minimum standard for valuation shall be the calendar year statutory valuation interest rates as defined in KRS 304.6-145;

(b) The method used in determining the minimum standard for valuation shall be the commissioners reserve valuation method as defined in KRS 304.6-150;

(c) The minimum mortality standard for both male and female insureds shall be the 2001 Commissioners Standard Ordinary Male Composite Ultimate Mortality Table; and

(d) Where the credit life insurance policy or certificate insures two (2) lives, the minimum mortality standard shall be twice the mortality in the 2001 Commissioners Standard Ordinary Male Composite Ultimate Mortality Table based on the age of the older insured.

(4) Office of Insurance examiners, in examining company affairs, shall deem reserves maintained in accordance with this administrative regulation to be in compliance with the Kentucky Insurance Code, KRS Chapter 304, for all years under examination.

Section 6. "Special" Policies. (1) "Coupon," "pure endowment," "founders," "charter," "special," and similar type policies, shall use all of the policy benefits afforded in the computation of the mean reserve formula. Mean reserve factors shall be printed for use in the computation of policy reserves. The timing, frequency of contingency (if any), and the method of pure endowment payment shall be clearly shown in the formula used to compute the mean reserve. Mean reserve

computation shall not deviate from the formula and factor developed.

(2) Discriminatory and arbitrary action by the life insurance company to pay some benefits prior to contract date shall not create an asset or create a reduction of aggregate reserve liability unless an enforceable negotiable instrument is evidenced.

(3) A separate file of the "special" type policies mentioned in subsection (1) of this section, shall be initiated by the Life Actuary of the Office of Insurance and shall be maintained by his office in addition to policies filed with the Policy Analyst in the Life Division. For each domestic life insurance company, a folder for each "special" type policy in force shall include a specimen policy, actuarial formula used to arrive at the mean reserve, and a factor table of the various factors by age at issue distributed for the in-force durations considered.

(4) For domestic life insurance companies with less than \$500,000,000 of individual life in force and who do not use a standardized program package with unit programming, the following benefit breakdown shall be necessary. In force volume used in the mean reserve valuation run shall be segregated to allow for auditing of the various benefits. These benefits shall be enumerated as provided for in the filed specimen policy and shall include basic policy, return of premium, unma-tured endowments, termination benefit.

(5) Domestic life insurers excluded by subsection (4) of this section shall have reporting procedures and requirements compatible with the program package without sacrificing any audit trail of factors and their application. The requirements vary from company to company based on the procedure but shall be in a pattern consistent with that approved for that company and shall closely follow the requirements for other domestic life insurance companies.

Section 7. Cost of Noncompliance. (1) If material is not available as outlined above, the additional burden of cost for additional time required by the staff of the Office of Insurance, or its actuary, shall be borne by the life insurance company as provided for in KRS 304.2-290. A special examination may be ordered by the executive director, providing for a written report to him together with a time and expense billing to the company so examined.

(2) If a detail audit of reserves reveals that an error was made in the filed annual statement and in the certificate issued by the office, the executive director may order the withdrawal of certification and reissuance of certificates and copies, and require a refiled NAIC annual statement on a significant error, or prescribe corrective internal procedures in the company prior to the next filed NAIC statement for when the resultant error is not significant.

Section 8. Incorporation by Reference. (1) The following material is incorporated by reference:

(a) "1958 Commissioners Extended Term Table of Mortality (1958)";

(b) "1958 Commissioners Standard Ordinary Table of Mortality (1958)"; and

(c) "2001 Commissioner Standard Ordinary Male Composite Ultimate Mortality Table (2001)."

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